To succeed in your staffing business,

you need a comprehensive understanding of pricing and everything that goes in to it. To get you started, we have laid out some basic pricing terminology and definitions, as well a sample profit assumption that will help you determine your bill rate.

Pricing Definitions

STATUTORY EXPENSES
(also called Burden Rate)

State Unemployment Insurance Tax Authority (SUTA):
Rates and taxable wage limits vary greatly by state to state.

Federal Unemployment Tax (FUTA):
Typically the rate is .06% on the first $7,000 in employee earnings. Some states have higher rates due to debts to the federal government.

Social Security and Medicare Tax Rate (FICA):
This is a single flat rate to all employers of 6.2% for social security and 1.45% for Medicare tax. This is capped at a salary of $118,500 for each employee in 2015 but changes each year.

Workers Compensation Insurance (WC):
WC is an insurance policy that covers work related injury and illness. Workers comp insurance rates vary by skill type, vendor and state.

OVERHEAD EXPENSES

Along with standard operating cost items such as rent and equipment, don't forget recruiting costs, sales commissions and your cost of money based on payment terms.

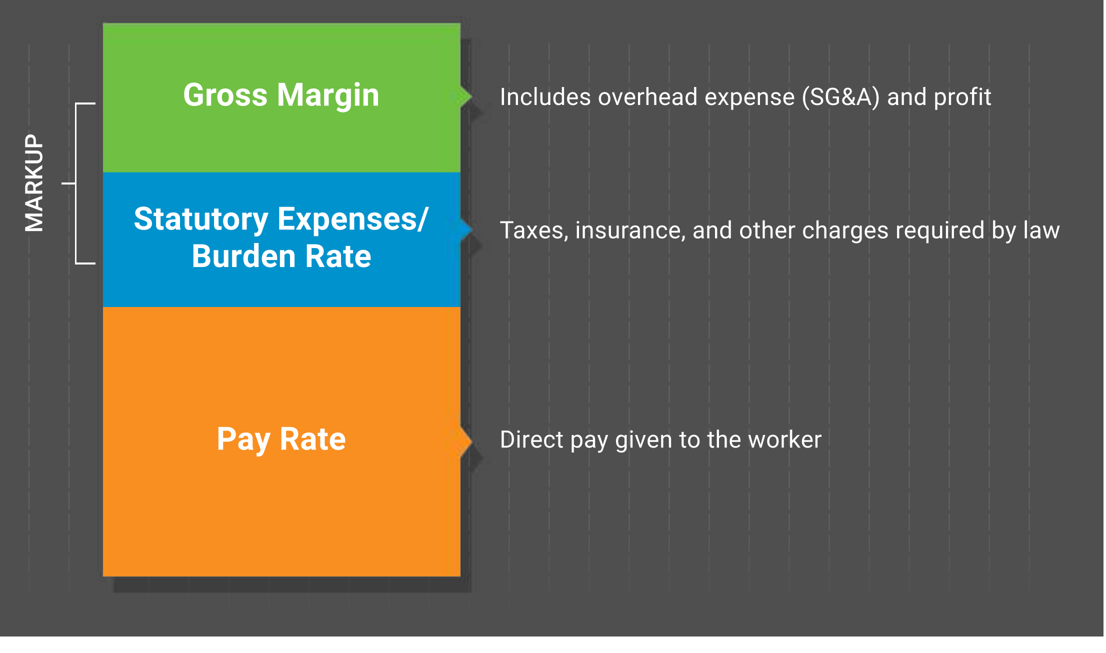
GROSS MARGIN

Gross margin is the amount of money a staffing firm gets to keep after paying the temporary workers payroll, benefits and payroll taxes (statutory expenses). Gross margin dollars are used to pay internal operating costs and owner's profit.

Components of Pricing

WHAT GOES INTO THE BILL RATE?

There are three main components to take into account:



Crunching Numbers

Assume an administrative assistant on assignment has a Pay Rate of **$15**

Assume your Burden Rate is **12%**

Assume your Mark-up is **50%**

What is your Bill Rate?
*Bill Rate = Pay Rate * (1 + Mark-up)*

$15 * (1 + .5) = $22.50

What is your Direct Cost of Labor?
*Direct Cost of Labor = Pay rate * (1+Burden rate)*

$15 * (1 + .12) = $16.80

What is your Gross Margin?
*Bill Rate = Pay Rate * (1 + Mark-up)*

$22.50 - $16.80 = $5.70 per hour

The $5.70 hourly gross margin is what you have as a staffing company to cover your overhead and your net profit.

How does mark-up affect gross margin?

Let's take the same example and calculate using a 30% markup rather than 50%.

What is your new Bill Rate?

$15 * (1 + .3) = $19.50

Your Direct Cost of Labor stays the same

$15 * (1 + .12) = $16.80

What is your new Gross Margin?

$19.50 - $16.80 = $2.70 per hour

Changing your markup from 50% to 30% has a significant impact on your gross margin. ($2.70/hr compared to $5.70/hr)

Sample Profit

		% OF REVENUE	% OF EMPLOYEE PAY (expressed as markup)
Annual Revenue	$1,000,000	100%	150% (50% markup)
Employee Pay	$667,000	66.70%	100%
Burden Rate	$97,000	9.70%	14.50%
Gross Margin	$236,000	23.60%	35.50%
SG&A (overhead)	$180,000	18%	27%
Operating Profit	$56,000	5.60%	

As you can see, mark-up does not mean profit. This sample has many variables based on your state's tax rates and workers comp cost but it gives you a way to model your pricing and your profit expectations.

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